December 10, 2003

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TO: Local Agency Formation Commission

FROM: MSR Oversight Committee – *Commissioners Peter Herzog, Charley Wilson, Susan Wilson, and John Withers*
Dana M. Smith, Executive Officer
Ken Lee, Senior Project Manager

SUBJECT: Municipal Service Review Program Update

Introduction

On August 13, 2003, the Commission received a consultant report on findings from a series of 35 countywide stakeholder interviews and authorized staff to launch the municipal service review (MSR) "prototypes" as part of the next phase of LAFCO's MSR Program. Since then, staff has been meeting and working closely with LAFCO's MSR Oversight Committee to develop a model for a stakeholder-driven MSR process that will be implemented in two prototypes:

1. Los Alamitos / Seal Beach / Rossmoor / Sunset Beach

2. City of Orange / East Orange / Orange Sphere of Influence

During the past month, staff has met one-on-one with staff and electeds from the various stakeholder groups in these prototype areas to "roll out" and explain the MSR process and seek stakeholder support and participation. All stakeholders have expressed their willingness to participate in the process and offered helpful input and feedback. Staff anticipates that the two MSR prototypes will officially launch in mid-January 2004.

The following report provides a review and update of the overall MSR Program and a detailed description of the MSR process model developed by the MSR Oversight Committee, including its application to the two upcoming prototypes.

Finding a Compass

The MSR law is contained in one brief paragraph in the Government Code (§56430) and, in short, requires LAFCO to: (1) conduct MSRs in preparation for sphere of influence updates; (2) conduct MSRs regionally or sub-regionally; and (3) adopt nine determinations. That law does not, however, provide LAFCO any clear direction or guidance on how to actually go about conducting or implementing these studies. To provide a compass and guidance for MSRs in Orange County, this Commission set forth three guiding principles for MSRs:

1. MSRs should be **future-oriented** studies that address future growth and municipal service and infrastructure needs and opportunities over the next 15 to 20 years.

2. MSRs should be **valuable to the stakeholders and the public as the ultimate end-users** of the studies.

3. MSRs should be conducted through an **open and inclusive process**.

What is "valuable"?

To better understand how LAFCO can make MSRs valuable to the end-users, the Commission hired two professional consulting teams in March of this year to conduct countywide stakeholder interviews to learn firsthand what stakeholders to Orange County's local governments believe to be the important regional issues and concerns in this County. From those findings, the MSR Oversight Committee has worked with staff to begin developing an approach and process for conducting MSRs in Orange County by "focus areas." In total, these focus areas will encompass more than 60 local agencies countywide, including 34 cities and more than 26 special districts, independent and dependent.

Step-by-Step

Before fully launching the MSR Program countywide, two initial MSRs will be conducted as "prototypes" in 2004. A consistent model for the MSR process will be used in both prototypes. Upon conclusion of the prototypes, the Commission will review and evaluate the successes and shortcomings of the MSR model in both prototypes:

▸ Did we satisfy our statutory obligations?

▸ Did we meet our guiding principles?

▸ Were the MSRs future-oriented?

▸ Were the studies valuable to stakeholders and the public?

▸ Was the process open to and inclusive of the public?

Based on this evaluation, the Commission will revise and refine the MSR model before fully implementing the MSR Program in other focus areas. Staff is currently working with consultants and the MSR Oversight Committee to develop a broader five-year (2005-2009) implementation plan for the entire MSR Program that will include multiple focus areas covering more than 60 local agencies and specified regional or countywide MSRs.

The MSR Model

A tentative model of the MSR process to be used in the focus areas is depicted in a flowchart and outline in Exhibit "A." The development of the model was substantially based on how LAFCO can make the MSRs valuable to the end-users. This meant trying to understand what end-product stakeholders will find usable and valuable to their agencies and their communities.

Stakeholder Driven
First, the MSR process must be stakeholder-driven.   The stakeholders, not LAFCO, should set the stage for determining what is or is not a critical future governance, service, or infrastructure issue in their given focus area. This can be implemented through a stakeholder working group process that is run by an outside facilitator. LAFCO staff will participate on this working group and provide staff support to the working group but will not run or facilitate the process or the meetings. One of the key outcomes of this stakeholder-driven process will be to create high-level dialogue and collaborative discussions among the stakeholders that is normally politically difficult for agencies and the public to raise on their own.

Data Driven
Decisions about future governance, services, and infrastructure need to be based on sound, reliable data. Another key outcome of the MSR process will be to collect accurate and trusted data about future growth, future change, existing service and infrastructure gaps, and how our governance, service, and infrastructure systems will be impacted by future growth and change. To help synthesize the technical data in an efficient, productive, and understandable manner, the stakeholder working group will assign technical committees to analyze data for specified municipal services and draw conclusions from the data to serve as the basis for recommendations that will be made by the working group about future governance, services, and infrastructure.

Stakeholder Created
To produce an end-product that is valuable to the stakeholders as the ultimate end-users, the stakeholders need to have personal ownership over the creation of

the end-product. Under the MSR model, the stakeholder working group will be responsible for the creation of a 20-year vision plan document that sets forth short-range, mid-range, and long-range alternative plans, strategies, opportunities, and solutions for the future governance, services, and infrastructure in the focus area. The vision plan will also serve as the basis for LAFCO's nine required determinations and updates of spheres of influence for all local agencies within the focus area.

Timeframe – Sustaining Interest and Maintaining Momentum

One of the greatest challenges in facilitating a volunteer working group or committee process is sustaining a high level of interest among participants in the work that is being accomplished and maintaining continual momentum throughout the process. Long breaks between meetings often lead to a loss of both interest and momentum. To sustain interest and maintain momentum, the stakeholder working group will meet every three weeks over a seven to nine month timeframe. The working group will also develop and maintain a "roadmap" of the MSR process that the group can consistently revisit to help them stay on target.

"Open and Inclusive"

Consistent with the Commission's guiding principles for the MSRs, each and every meeting of the stakeholder working group will be open to the public to attend and observe. The working group will decide what opportunities to make available during the meetings for public comment. Meeting announcements for each of the prototype working groups will be posted on LAFCO's MSR web page.

In summary, the MSR process will include six general steps:

1. Stakeholders in a focus area are identified.

2. A stakeholder working group is formed.

3. The working group collects data and conducts a gaps analysis of current and future governance, service, and infrastructure issues in the focus area.

4. The working group develops and identifies short-range, mid-range, and long-range alternative plans, strategies, solutions, and opportunities to address the gaps.

5. The working group crafts a 20-year vision plan for future governance, services, and infrastructure that incorporates alternative plans, strategies, solutions, and opportunities.

6. LAFCO adopts nine required determinations and updates spheres of influence for all local agencies in the focus area in a manner that is consistent with the working group's 20-year vision plan.

Composition of the Stakeholder Working Group

A key goal of the working group process will be to engage stakeholders in high-level yet data-driven discussions about future growth in the focus area. To facilitate these discussions, the working group should be composed of stakeholder representatives who possess a strong technical knowledge and expertise of the plans, data, and, more importantly, policies that govern municipal services and infrastructure systems in the focus area. Accordingly, working group members from local agencies will consist mostly of staff representatives.

The working group members should also be representative of the key agencies and major communities of interest in the area and should be positioned to serve as an information conduit to and from the agencies, elected officials, community groups, and the general public. In general, each stakeholder category will be assigned one representative. For cities, however, representatives will also include one rotating technical staff member to provide technical support to the city manager on specific city services (e.g., police, fire, public works, finance, etc.) and one public or community member to represent the city's general public. Public members from cities will provide balanced representation on the working group relative to representation from the major unincorporated communities of interest. Representatives from the major unincorporated communities will be appointed by the respective County Supervisors from those areas.

Under the MSR model, the composition of stakeholder working groups for each focus area will be as follows:

| Stakeholder Group	Representatives
Each City	**One** City Manager **One** technical city staff representative (selected by the City Manager) **One** public or other community representative (selected by the City Manager)
Each Special District or Other Utility/Service Provider	**One** General Manager or Director of Engineering
Each Major Unincorporated Community of Interest	**One** public representative (selected by the respective County Supervisor)
County of Orange	**One** County staff representative
LAFCO	**One or two** LAFCO staff representatives

The "Prototypes"

The initial two prototype focus areas the MSR model will be applied to in the coming year are:

Rossmoor / Los Alamitos / Seal Beach / Sunset Beach

This focus area is generally characteristic of Orange County's older "urban core" areas with more established neighborhoods built before 1970. An MSR in this "focus area" might seek to address service, infrastructure, and governance challenges such as:

▸ Aging infrastructure (water, sewer, roads)

▸ Financing constraints and opportunities to sustain urban levels of service and quality of life

▸ New and existing opportunities for inter-agency collaboration, cost-sharing, cooperative agreements, etc.

▸ Governance options and communities of interest
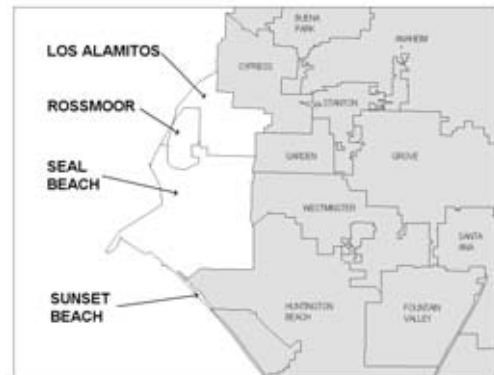
The stakeholder working group will specifically identify and define what the current and future challenges are for the focus area.

Orange / East Orange / Orange Sphere of Influence

This focus area is characteristic both of Orange County's older "urban core" areas and the newer "urban fringe" areas of the County where new and existing development potential exist. An MSR in this "focus area" might seek to address service, infrastructure, and governance challenges such as:

▸ Public services and facilities required to serve the future needs of future residents

▸ Structural relationships of overlapping service agencies and providers in newly developing territories

▸ Aging infrastructure (water, sewer, roads)

The stakeholder working group will specifically identify and define what the current and future challenges are for the focus area.

Although the boundaries of the prototype focus areas have been generally defined, edge issues affecting neighboring agencies and service providers will likely arise out of the stakeholder working group process. Consultation with some of these MSR "neighbors" may be necessary as these edge discussions take place. Staff will be sending letters in the next few weeks to each of the MSR neighbors to describe the prototype process and invite them to send staff to attend and observe the working group meetings in the audience.

Please refer to Exhibit "B" for more detailed maps of the prototype areas. Also, please refer to the tables in Exhibit "C" detailing the tentative stakeholder working group compositions for each prototype based on the formula described previously.

Next Steps

The following is a list of next steps in the implementation of the MSR process model for the two upcoming MSR prototypes.

1. **Appointments:** Supervisors Jim Silva and Bill Campbell will be making appointments to the working groups from the major unincorporated communities in the prototypes. These unincorporated communities include: (a) Rossmoor and Sunset Beach, and (b) Orange Park Acres, North Tustin, and a likely representative from the Inter-Canyon League in the Silverado-Modjeska Canyon area. Staff is suggesting that the Supervisors also make recommendations to the County Executive Officer for the selection of a County staff representative that will sit on both working groups.

2. **Prototype Kickoff:** Once the Supervisors' appointments are made, staff will send out an official invitation letter to each stakeholder and schedule the first meetings of the stakeholder working groups. Staff anticipates the MSR prototypes to officially launch in mid-January 2004. The first working group meeting will be an organizational "kickoff" meeting to establish goals, ground rules, roles, expectations, and logistics for the working group. Sharon Browning has been selected as the facilitator for both prototype working groups.

Five-Year MSR Implementation Plan

Staff is also working with consultants and the MSR Oversight Committee to develop a five-year (2005-2009) plan for the implementation of MSRs by focus area for the entire County. The plan will include proposed boundaries for MSR focus areas, proposed regional or countywide MSRs to address service-specific issues, and a prioritized schedule of MSRs from 2005 through 2009. The five-year MSR implementation plan will be presented to the full Commission for review and discussion at next year's January 30, 2004 Annual Strategic Planning Session.

Exhibits:

A. MSR Process Model Flowchart and Outline

B. MSR Prototype Maps

C. Tentative Compositions of MSR Prototype Working Groups
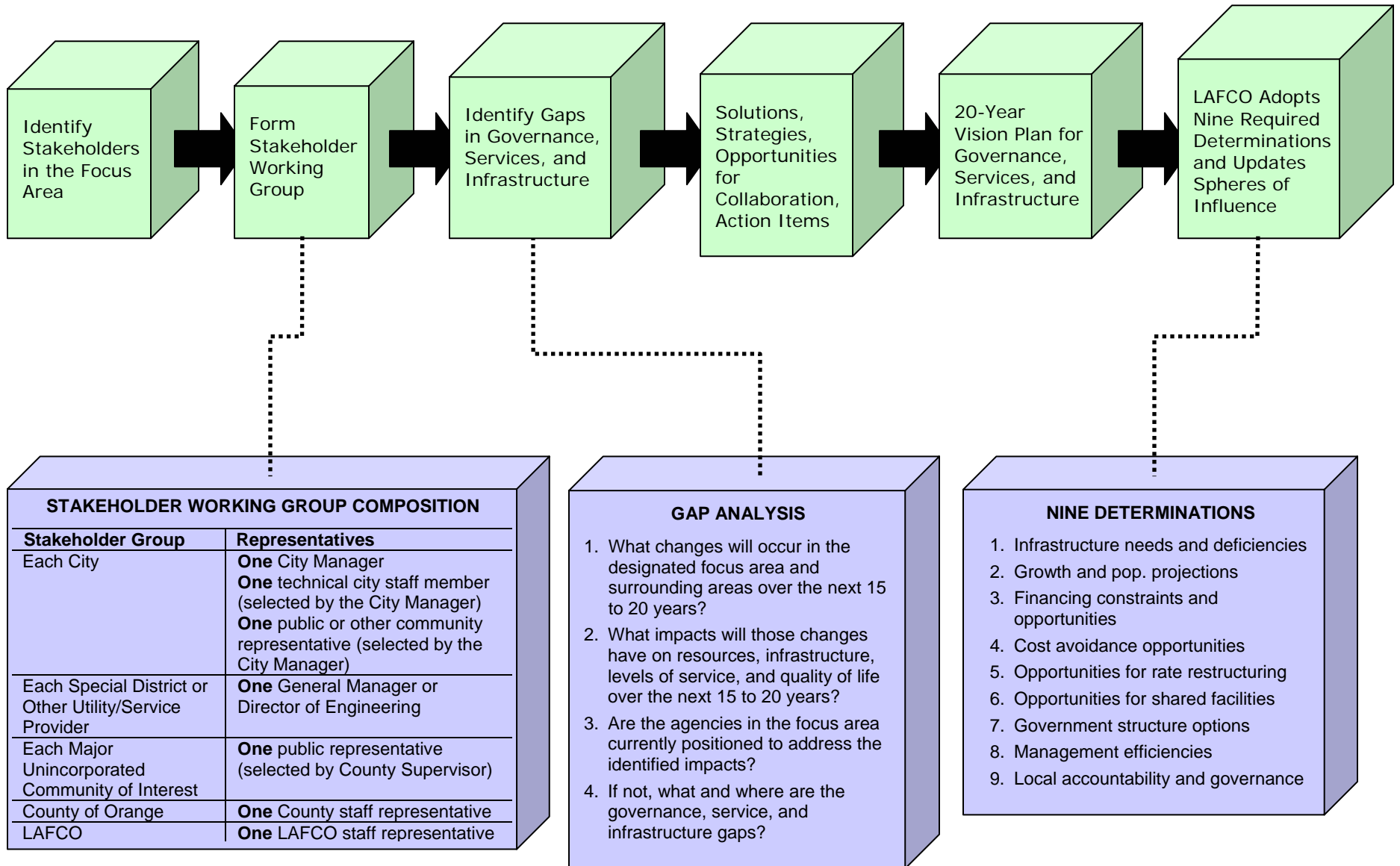
EXHIBIT "A"

MSR PROCESS

Identify Stakeholders in the Focus Area → Form Stakeholder Working Group → Identify Gaps in Governance, Services, and Infrastructure → Solutions, Strategies, Opportunities for Collaboration, Action Items → 20-Year Vision Plan for Governance, Services, and Infrastructure → LAFCO Adopts Nine Required Determinations and Updates Spheres of Influence

STAKEHOLDER WORKING GROUP COMPOSITION

Stakeholder Group	Representatives
Each City	**One** City Manager **One** technical city staff member (selected by the City Manager) **One** public or other community representative (selected by the City Manager)
Each Special District or Other Utility/Service Provider	**One** General Manager or Director of Engineering
Each Major Unincorporated Community of Interest	**One** public representative (selected by County Supervisor)
County of Orange	**One** County staff representative
LAFCO	**One** LAFCO staff representative

GAP ANALYSIS

1. What changes will occur in the designated focus area and surrounding areas over the next 15 to 20 years?
2. What impacts will those changes have on resources, infrastructure, levels of service, and quality of life over the next 15 to 20 years?
3. Are the agencies in the focus area currently positioned to address the identified impacts?
4. If not, what and where are the governance, service, and infrastructure gaps?

NINE DETERMINATIONS

1. Infrastructure needs and deficiencies
2. Growth and pop. projections
3. Financing constraints and opportunities
4. Cost avoidance opportunities
5. Opportunities for rate restructuring
6. Opportunities for shared facilities
7. Government structure options
8. Management efficiencies
9. Local accountability and governance

MUNICIPAL SERVICE REVIEW ("MSR") PROCESS

Purpose
Establish an MSR process that involves and engages stakeholders to develop a 20-year vision plan for governance, services, and infrastructure that provides a basis and foundation for LAFCO's state-mandated MSR determinations and sphere of influence updates.

One-Year MSR Process Outline

1. Identification of stakeholders
   The first step in the MSR process will be to identify key stakeholders in the focus area who will be effective representatives in a stakeholder working group. Stakeholders will include key service providers in the focus area, including governmental agencies such as cities, special districts, and the County. Stakeholders will also include resident and community groups from major recognized communities of interest in the focus area.

2. Formation and composition of stakeholder working group
   A stakeholder working group will be formed composed of stakeholder representatives who possess strong technical knowledge and expertise in the plans, data, and policies that govern municipal services and infrastructure systems in the focus area. The working group members should be representative of the key agencies and major communities of interest in the area and positioned to serve as an information conduit for agencies, elected officials, community groups, and the general public.

3. Composition of the stakeholder working group

Stakeholder Group	Representatives
Each City	**One** City Manager **One** technical city staff representative (selected by the City Manager) **One** public or other community representative (selected by the City Manager)
Each Special District or Other Utility/Service Provider	**One** General Manager or Director of Engineering
Each Major Unincorporated Community of Interest	**One** public representative (selected by the respective County Supervisor)
County of Orange	**One** County staff representative
LAFCO	**One or two** LAFCO staff representatives

4. Facilitation
   Working group meetings will be facilitated by an outside consultant. The facilitator will prepare the agenda, guide the working group discussions, and get consensus from the working group on key issues.

5. LAFCO's roles
    LAFCO staff will be active participants on the working group. LAFCO will also provide staff support to the working group, including writing up meeting notes, researching data, and preparing reports.

6. Expectations of the stakeholder working group
    The stakeholder working group will:

    a) Identify the key municipal service, governance, and infrastructure gaps that will present the greatest challenges over the next 15 to 20 years.

    b) Assign technical work to technical committees on an as needed basis.

    c) Form clear conclusions about future opportunities, constraints, and needs that LAFCO can formalize and address through sphere of influence updates and LAFCO's nine required determinations. To identify gaps and draw conclusions, the members will explore the following:

        i.   What changes will occur in the designated focus area and surrounding areas over the next 15 to 20 years?
             ▪ Population projections
             ▪ Demographic shifts
             ▪ Age of infrastructure
             ▪ Finance/funding
             ▪ Etc.

        ii. What impacts will those changes have on resources, infrastructure, levels of service, and quality of life over the next 15 to 20 years?

        iii. Are the agencies in the focus area currently positioned to address the identified impacts?

        iv. If not, what and where are the governance, service, and infrastructure gaps?

        v.   What solutions, opportunities for collaboration, strategies, and action items can be implemented to fill the gaps?

    d) Create a 20-year vision plan for governance, services, and infrastructure that sets forth goals and short-range, mid-range, and long-range strategies, plans, and action items for implementation by the stakeholders. The vision plan will address the key municipal service, governance, and infrastructure issues and gaps identified by the stakeholder working group.

7. LAFCO's nine required determinations and sphere of influence updates
    The MSR law mandates LAFCO to make nine determinations and update spheres of influence for all agencies in the focus area. The determinations and sphere updates will serve as important implementation tools for the 20-year vision plan by establishing clear conclusions and recommendations about future opportunities, constraints, and needs and setting sphere of influence boundaries that direct the location and timing of growth in a manner consistent with the 20-year vision plan. The nine determinations and

sphere updates will therefore be consistent with the findings, conclusions, and 20-year vision plan set forth by the stakeholder working group.

The nine determinations will identify the governance, service, and infrastructure gaps addressed by the working group and set forth recommendations about the structural relationships of the various agencies in the focus area.

    a) LAFCO's nine required determinations are:

        i. Infrastructure needs or deficiencies

        ii. Growth and population projections for the affected area

        iii. Financing constraints and opportunities

        iv. Cost avoidance opportunities

        v. Opportunities for rate restructuring

        vi. Opportunities for shared facilities

        vii. Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers

        viii. Evaluation of management efficiencies

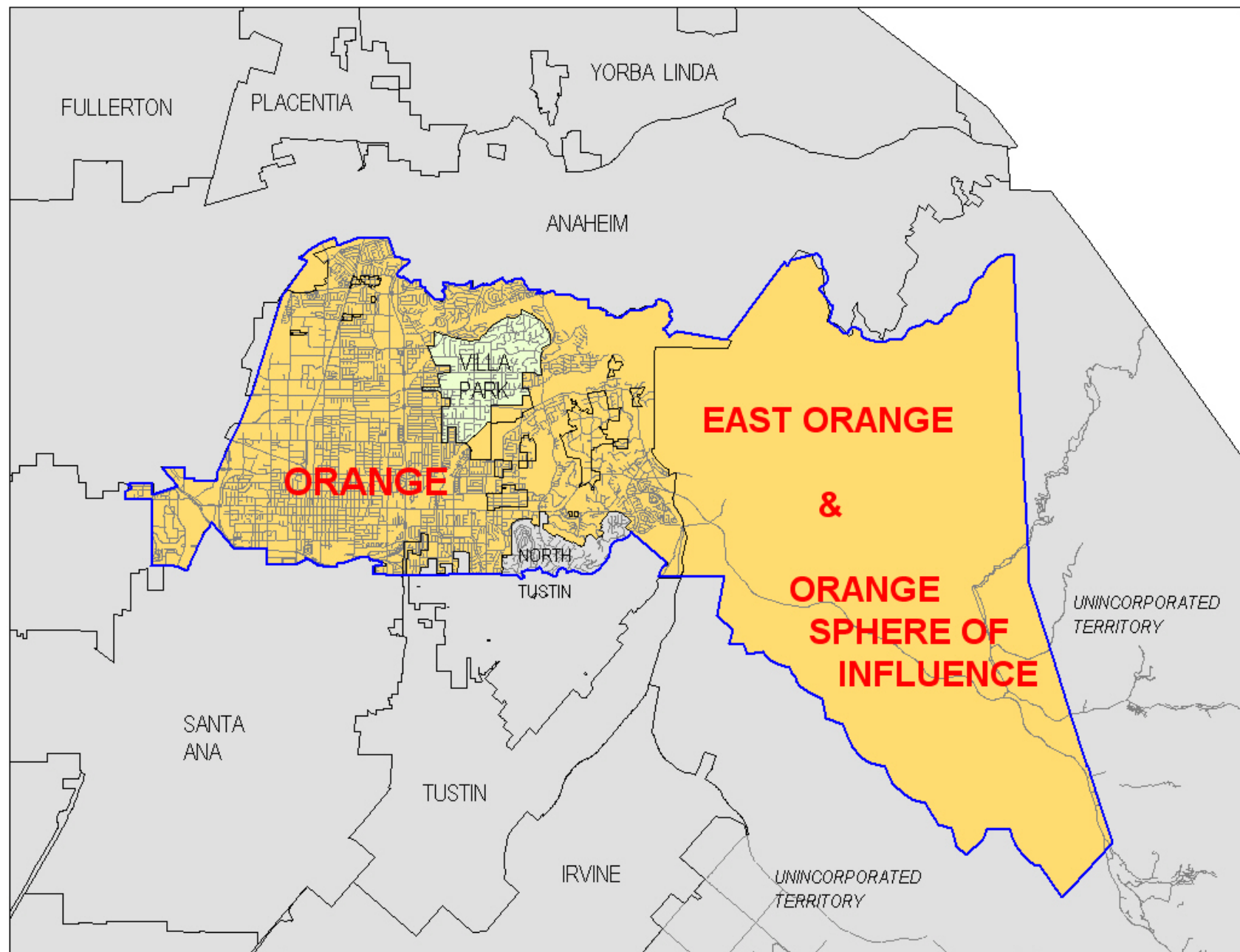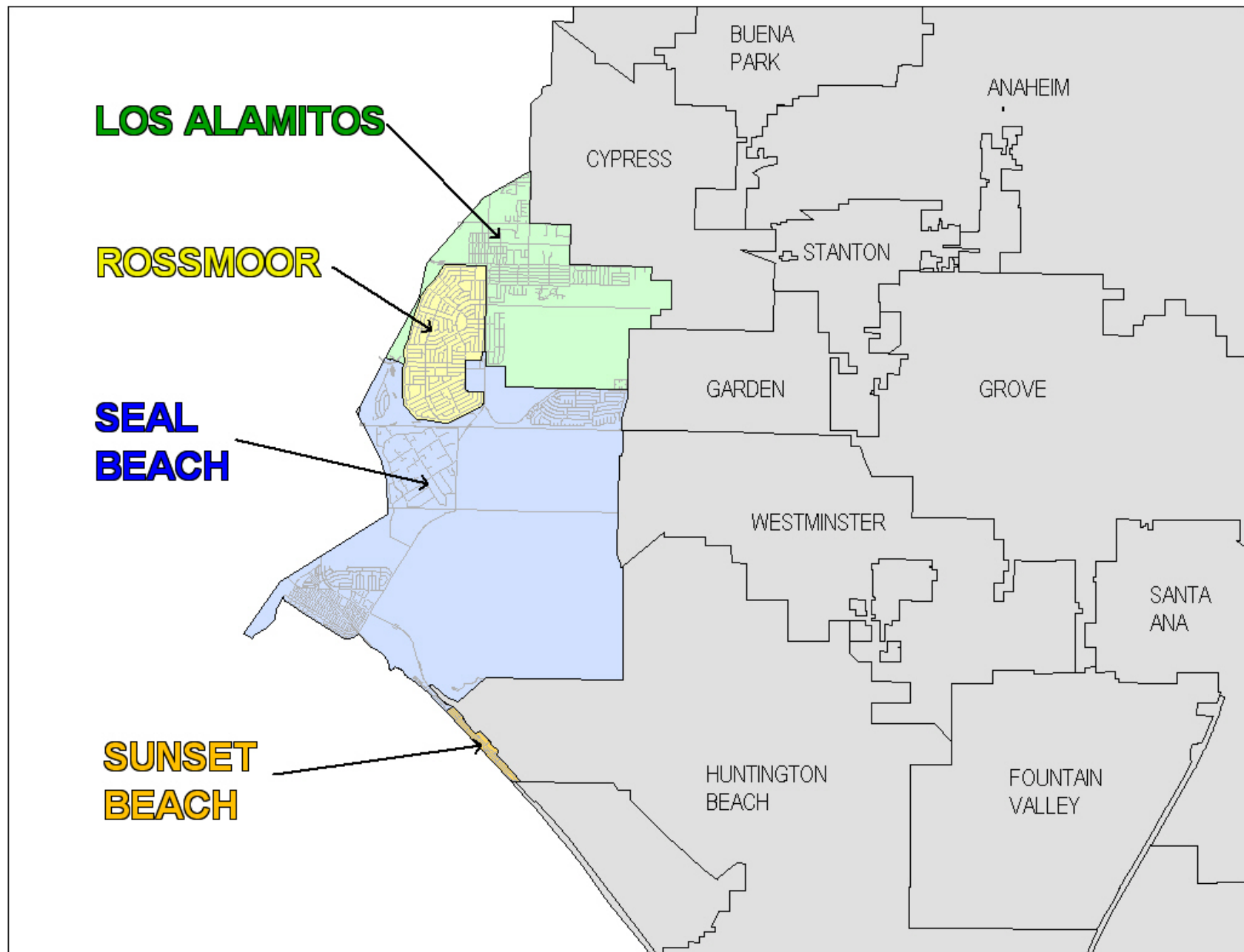   ix. Local accountability and governance

EXHIBIT "B"

EXHIBIT "B"

City of Orange / East Orange / Orange Sphere of Influence

Stakeholder Working Group Composition:

Category	Stakeholder Group	#	Representative	Who selects?
CITIES	City of Orange	1	City Manager	
		1	Technical / utilities staff rep.	City Manager
		1	Public or other community rep.	City Manager
	City of Villa Park	1	City Manager	
		1	Rotating technical / utilities staff rep.	City Manager
		1	Public or other community rep.	City Manager
SPECIAL DISTRICTS & UTILITIES	IRWD	1	General Manager / Dir. of Engineering	
	Santiago County Water District	1	General Manager / Dir. of Engineering	
	Serrano Water District	1	General Manager / Dir. of Engineering	
	East Orange County Water District	1	General Manager / Dir. of Engineering	
	Sil-Mod Park & Rec District	1	General Manager / Dir. of Engineering	
COMMUNITIES OF INTEREST	North Tustin	1	Public rep.	County Supervisor
	Orange Park Acres / OPA Mutual	1	Public rep.	County Supervisor
	Inter-Canyon League (???)	1	Public rep.	County Supervisor
COUNTY	County of Orange	1	County staff rep.	
	TOTAL	**15**		

Rossmoor / Los Alamitos / Seal Beach / Sunset Beach

Stakeholder Working Group Composition:

Category	Stakeholder Group	#	Representative	Who selects?
CITIES	City of Seal Beach	1	City Manager	
		1	Technical / utilities staff rep.	City Manager
		1	Public or other community rep.	City Manager
	City of Los Alamitos	1	City Manager	
		1	Rotating technical / utilities staff rep.	City Manager
		1	Public or other community rep.	City Manager
COMMUNITIES OF INTEREST	Rossmoor CSD/Los Alamitos Sewer District/Public Representative	2	To be appointed	County Supervisor
COMMUNITIES OF INTEREST	Sunset Beach Sanitary District/Public Representative	2	To be appointed	County Supervisor
COUNTY	County of Orange	1	County staff rep.	
	TOTAL	11		